DATE: June 29, 2018

TO: Mike Carroll
Secretary

FROM: Keith R. Parks
Inspector General

SUBJECT: Assurance Report - *Our Kids of Miami-Dade/Monroe, Inc. - Client Trust Funds*

Attached is our assurance report titled *Our Kids of Miami-Dade/Monroe, Inc. - Client Trust Funds*. We conducted this audit in accordance with the Office of Inspector General Fiscal Year 2017-2018 Internal Audit Work Plan.

The objectives of this audit were to determine whether Our Kids of Miami-Dade/Monroe, Inc. (Our Kids) had taken the necessary and appropriate safeguards to protect client trust funds (CTFs); ensure reliability of financial records; and meet its fiduciary responsibilities. The scope of this audit included expenditure documentation, fiduciary responsibility to the client as representative payee for social security funds paid on behalf of clients served under contract with the Department, and planning and budgeting of client funds to ensure accounts remained within acceptable limits while meeting the needs of the clients. The audit period included July 1, 2015 to June 30, 2017.

The audit disclosed the following:

- Our Kids did not allocate bank service charges (bank fees) to CTF accounts but paid for the fees by reimbursing the CTF bank account with funds received from the Department;
- Our Kids did not invest excess CTFs; and
- Our Kids could not provide documentation that room and board rates deducted from CTFs were agreed upon or approved by the Department.

Our report includes the following recommendations:

- **We recommend** that Our Kids prorate bank fees to CTF accounts as prescribed by 7 APM 6;
- **We recommend** that Our Kids develop a cost-effective method for allocating bank fees to client accounts;

- **We recommend** that Our Kids review the usage of CTFs held in the local bank account, and comply with Florida Statutes and Department policy by investing excess funds;
- **We recommend** that Our Kids consider working with the bank to identify ways to reduce or eliminate bank service charges (bank fees) and make more funds available to assist clients; and
- **We recommend** that, as required in § 409.145, F.S., the Department and Our Kids document agreement with rates that are set in the Southern Region.

If you have any questions, concerns, or comments, please let me know.

Attachment

Distribution

Eric Miller, Chief Inspector General, Executive Office of the Governor
David Fairbanks, Deputy Secretary
Jessica Sims, Chief of Staff
John Jackson, Acting General Counsel
Kimberly McMurray, Chief Financial Officer
JoShonda Guerrier, Assistant Secretary for Child Welfare
George Sheldon, President and Chief Executive Officer, Our Kids
Mohamed Ghalayini, CPA, Vice President and Chief Financial Officer, Our Kids
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Kathy DuBose, Coordinator, Joint Legislative Auditing Committee

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DEPARTMENT OF CHILDREN AND FAMILIES

OFFICE OF INSPECTOR GENERAL
INTERNAL AUDIT
Enhancing Public Trust in Government

Mike Carroll
Secretary

Keith R. Parks
Inspector General

Project # A-1718DCF-048

June 29, 2018

Assurance Report: Our Kids of Miami-Dade/Monroe, Inc. - Client Trust Funds

Summary

In accordance with the Office of Inspector General Fiscal Year 2017-2018 Internal Audit Annual Work Plan, we conducted an assurance review of Client Trust Funds (CTFs),[1] administered by Our Kids of Miami-Dade/Monroe, Inc. (Our Kids),[2] the lead agency for community-based care (CBC)[3] in Circuits 11 and 16. Our Kids assumed responsibility for administering CTFs on June 29, 2006.

The objectives of this audit were to determine whether Our Kids had taken the necessary and appropriate safeguards to protect CTFs; ensure reliability of financial records; and meet its fiduciary responsibilities.

The audit disclosed the following:

- Our Kids did not allocate bank service charges (bank fees) to CTF accounts but paid for the fees by reimbursing the CTF bank account with funds received from the Department.
- Our Kids did not invest excess CTFs.
- Our Kids could not provide documentation that room and board rates deducted from CTFs were agreed upon or approved by the Department.

[1] Chapter 402, Florida Statutes (F.S.), authorizes the Department to accept and administer in trust, in accordance with fiduciary standards while protecting the state's financial interest, any money, or other property received for the personal use or benefit of clients.

[2] According to its website, Our Kids, incorporated in 2002, is a 501(c)(3) non-profit corporation created in response to the need for local leadership, oversight, and coordination of the foster care system. As the non-profit lead agency for community-based care in Miami-Dade and Monroe Counties, Our Kids oversees and directs a coordinated system of care that provides crucial services to abused, abandoned, and neglected children in the community. Our Kids has defined its mission as "To oversee and direct a coordinated system of care in order to deliver excellence to abused, abandoned, and neglected children and their families in Miami-Dade and Monroe Counties.

[3] Community-Based Care (CBC) is a comprehensive redesign of Florida's Child Welfare System. It combines the outsourcing of foster care and related services to competent service agencies with an increased local community ownership of service delivery and design.

This report discusses in further detail our findings and recommendations regarding our audit of CTFs administered by Our Kids.

Scope and Methodology

The **scope** of this audit included expenditure documentation, planning and budgeting of clients' funds to ensure accounts remain within acceptable limits while meeting the needs of the clients, and fiduciary responsibility to the client as representative payee for social security funds paid on behalf of clients served under contract with the Department. The audit period included July 1, 2015 to June 30, 2017.

To achieve our audit objectives we:

- Reviewed Our Kids CTF Statements for the periods 2015-2016 and 2016-2017;
- Reviewed Our Kids fiscal years 2015-2016 and 2016-2017 bank statements for account balances and bank fees;
- Reviewed fiscal years 2015-2016 and 2016-2017 check registers and related transactional documents;
- Reviewed the Social Security Administration's (SSA) Guide for Representative Payees and Understanding Supplemental Security Income (SSI);
- Selected a judgment sample[4] of 41 expenditures from Our Kids CTF check registers for the fiscal years 2015-2016 and 2016-2017. This sampling included a review of cancelled checks made payable to four case management agencies for 114 reimbursements, SSA for 49 clients returned funds, nine individuals (aged out clients or legal guardians), and one to Our Kids for error correction;
- Reviewed receipt documentation and withdrawal requests for the judgmentally selected sample;
- Interviewed staff as appropriate;
- Reviewed expenditure plan documentation for selected clients;
- Reviewed an Internal Control Questionnaire completed by Our Kids staff;
- Reviewed §§ 402.17, 402.33, and 402.145, Florida Statutes (F.S.), the Department's Accounting Procedures Manual (APM), Volume 7 Local Funds, Chapter 6, Client Trust Funds Administered By Providers (7 APM 6); and Children and Families Operating Procedures (CFOP) 175-59, Master Trust for Benefit of Family Safety Program Clients;
- Reviewed Our Kids Client Trust Master Fund Procedures;
- Reviewed the Department's Foster Parent Cost of Living Allowance Increase memorandum to Regional Managing Directors (RMDs) and Chief Executive Officers (CEOs), dated February 24, 2017;
- Reviewed Our Kids General Ledger Detail for fiscal years 2015-2016 and 2016-2017; and

[4] A nonstatistical sample selection method in which the sample is selected based on the auditor's sound and seasoned judgment. (Source: Barbara Apostolou, *Internal Audit Sampling*, The Institute of Internal Auditors, 1991).

➢ Reviewed Contract # KJ114-23 between the Department and Our Kids.

Background

Through its contract with the Department, Our Kids was contracted to deliver a comprehensive array of foster care and related services to eligible children and families in Miami-Dade and Monroe Counties, including administering CTFs. CTFs comprise resources such as SSI, other types of SSA benefits, and other third party contributions. Our Kids is subject to all of the same rules and regulations followed by the Department and must provide to SSA an accounting of its use of benefits and savings when requested.

Generally, children who meet the SSA definition of disability, and whose income and resources fall within eligibility limits, are eligible to receive monthly SSI benefits. When clients are unable to manage funds, SSA approves and appoints a representative payee to manage benefits paid to clients. To meet this obligation in Circuits 11 and 16, Our Kids serves as the (organizational) representative payee and acts on behalf of clients as the receiver of SSI and SSA benefits to ensure that the payments are used first for basic needs and then to provide a more stable living environment. Other third party payments may be deposited in a client's account, as well. The representative payee maintains clients' SSI, SSA, and other funds in "current needs," "dedicated" or investment accounts.

SSI and SSA funds received on behalf of clients are assessed a "maintenance fee," which offsets the clients' cost of care and is required to be sent to the Department within 30 days of receipt. These costs are based on rates set by the Legislature or enhanced rates agreed upon with foster parents or with a residential facility. Remaining funds should be used for the benefit of the client and may be disbursed for medical expenditures, therapeutic equipment, clothing, recreation, transportation, personal items, home furnishings, and certain living and other miscellaneous items.

Generally, clients' maintenance costs may not be recovered from "dedicated" account funds once these funds have been deposited. Deposits into the "dedicated" account should be those specific lump sum payments received from the SSA. These funds do not count toward the clients' resource limit and will be available to the client upon leaving the care of the Department or upon meeting other criteria defined by the trust document, unless written instructions from the SSA state otherwise.

CTF account values and number of clients with trust funds fluctuate throughout the fiscal year. As of June 30, 2017, Our Kids managed client trust fund accounts for 223 clients. "Current needs" bank account balances totaled $486,657.43 and "dedicated" bank account balances totaled $9,995. Our Kids had not invested excess CTFs.

Findings and Recommendations

Finding #1: Our Kids did not allocate bank service charges (bank fees) to CTF accounts but paid these fees by reimbursing the CTF bank account with funds received from the Department.

During the audit, we observed that Our Kids did not allocate monthly bank fees[5] to clients' trust fund accounts. For the audit period, bank fees totaled $8,785.41. In response to our inquiries regarding bank service charges, Our Kids responded, "Our Kids does not allocate bank service charges to the individual client's trust funds. The entire monthly service charge is paid with our core DCF dollars. Due to the nature of those bank charges, being frequent in nature but very small in value and quazi equally spread among all clients, it is much more cost efficient for us to refund those charges to the trust than to allocate them specifically to each client."

Usually, in the following month, Our Kids deposits funds received from the Department - an amount equal to the bank fees for the previous month - into the CTF so that "DCF reimburses [the] Client Trust for all bank service charge fees."[6] We also noted that Our Kids Client Trust Master Fund Procedures § IX. C. 2., states, "Based on the contract between Our Kids and DCF, banks *[sic]* fees are paid with DCF funds rather than charged to the client's account." We found no reference to support that statement.

According to 7 APM 6, "...when service charges or other fees are charged by a financial institution, or the Department, the individual client whose moneys comprise the fund must bear those charges and fees. Therefore, the fees must be prorated...."

Since Our Kids does not allocate bank fees to the clients' accounts, CTF account balances are overstated by an accumulated, unallocated bank fee amount. As a result, amounts paid to SSA, for returned funds or to clients when aging out or otherwise leaving the services of Our Kids, consist of funds provided by the Department to provide services rather than SSI or SSA benefits. Paying bank fees with funds intended for providing "core services" to clients reduces dollars available to pay for "core services."

Recommendation #1:

We recommend that Our Kids prorate bank fees to clients' trust fund accounts as prescribed by 7 APM 6. We also **recommend** that Our Kids develop a cost efficient method for allocating bank fees to client accounts.

Finding #2: Our Kids did not invest excess CTFs.

Pursuant to § 402.17(2)(d), F.S., Our Kids should, "As trustee, invest in the manner authorized by law for fiduciaries money not used for current needs of clients. Such investments may include...investments in savings share accounts of any credit union

[5] Bank fees appeared on bank statements net of interest earnings.
[6] Internal Control Questionnaire item #12.

chartered under the laws of the United States and doing business in this state, and savings share accounts of any credit union chartered under the laws of this state...." In addition to this authorization to invest in savings share accounts of any credit union, as described above, 7 APM 6 also states, "Funds may also be invested with the State of Florida Treasury investment account with the Department of Financial Services." Further, 7 APM 6 § 5 states, "Money in a client's trust fund that is in excess of current needs must be invested. Uninvested balances maintained in the client trust fund should not exceed that required for one month's volume of disbursements."

Our Kids established CTF bank accounts[7] that have 0.25% and 0.18% earnings allowances.[8] However, bank fees, which are partially offset by the earnings allowances, are greater than the interest earnings, resulting in only the net bank fee amount shown on the bank statements.[9] By comparison, the fiscal year 2015-2016 interest rate average for the State of Florida Treasury investment account was 1.5372% with monthly rates ranging from 1.1921% to 1.949%; the fiscal year 2016-2017 average rate was 1.5691% with monthly rates ranging from 0.9546% to 2.0201%.

Based on our review of the fiscal years 2015-2016 and 2016-2017 activity for the Our Kids CTF, the average monthly ending balance of the CTF Account (current needs) was approximately three times larger than the average of monthly disbursement activity.

Shown below, is a snapshot of account activity for the Client Trust Fund Account in fiscal years 2015-2016 and 2016-2017. Average ending monthly bank statement balances for the two periods were $413,102.62 and $449,323.19, respectively.[10] The average monthly expenditures were $149,685.06 and $140,019.14, respectively.

Our Kids Client Trust Fund Account Bank Activity

	Beginning Balance July 2015	Deposits July 2015 to June 2016	Withdrawals July 2015 to June 2016	Ending Balance June 2016	Bank Fees
	$341,214.53	$1,796,666.20	$1,796,220.66	$341,660.07	($4,552.32)^
Monthly Average		$149,722.18	$ 149,685.06	$413,102.62	

	Beginning Balance July 2016	Deposits July 2016 to June 2017	Withdrawals July 2016 to June 2017	Ending Balance June 2017	Bank Fees
	$341,660.07	$1,825,227.13	$1,680,229.67	$486,657.53	($4,233.09)^
Monthly Average		$152,102.26	$ 140,019.14	$449,323.19	

^ Includes bank fees charged for the Client Trust Fund Account and Master Client Trust Fund Dedicated Account

In response to our inquiry regarding investment of excess client funds, Our Kids responded, "While the funds are placed in individual interest bearing bank accounts, the

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7 Client Trust Fund Account and Master Client Trust Fund Dedicated Account.

8 July 2016 to June 2017 Wells Fargo Client Analysis Statement shows a 0.25% Earnings Allowance for the Client Trust Fund Account and 0.18% Earnings Allowance for the Master Client Trust Fund Dedicated Account.

9 Bank fees for the Master Client Trust Fund Dedicated Account are charged to the Client Trust Fund Account.

10 The average of the 12 monthly bank statements ending balances in fiscal years 2015-2016 and 2016-2017.

small balance of each account coupled with the low interest on bank deposits does not generate a high return on investment. We shall look into placing the funds with the State of Florida Treasury investment account...."

Based on our observations, Our Kids could invest a reasonable portion of the CTF bank balance in the investment pool at the State Treasury to earn additional interest that could help offset bank fees. Appropriate amounts could be transferred back to the CTF bank account when needed.

Recommendation #2:

We **recommend** that Our Kids review the usage of CTFs held in the local bank account, and comply with Florida Statutes and Department policy by investing excess funds. In addition, we also **recommend** that Our Kids consider working with the bank to identify ways to reduce or eliminate bank service charges (bank fees) and make more funds available to assist clients.

Finding #3: Our Kids could not provide documentation that room and board rates deducted from CTFs were agreed upon or approved by the Department.

Section 409.145(4), F.S., established room and board rates paid to foster parents and specified that foster parents shall receive an annual cost of living increase calculated by the Department. Further, this section states that the monthly foster care board rate may be increased upon agreement among the Department, CBC, and the foster parent. As mandated by § 409.145(4)(b), F.S., the Office of Child Welfare distributed the *Foster Parent Cost of Living Allowance Increase* memorandum, dated February 24, 2017, to RMDs and CBC CEOs to communicate adjustments to the room and board rates established by § 409.145(4)(a), F.S.

Additionally, according to Office of Child Welfare staff, during training sessions and bi-monthly calls, Regions were instructed to establish enhanced rate agreements (with CBCs). Based on our audit procedures, we learned that the Region had not established authorized rates with Our Kids.

Our review of the CTF Statements indicated that amounts withdrawn from the clients' trust fund accounts for room and board typically did not agree with rates specified in the *Foster Parent Cost of Living Allowance Increase* memorandum to RMDs and CBC CEOs, dated February 24, 2017. In response to our inquiry, we learned that "Our Kids does not have a written three-party agreement with DCF and the Foster Parent when the placement rates are higher than the state rates." In separate response to inquiry Our Kids stated, "Our Kids take *[sic]* the rates from the referenced memorandum as the minimum needed to be paid. We have set our standard rate higher than these rates due to cost of living in our area and to help attract more foster parents. In addition, the needs and behavior of some children require an enhanced rate....While the nature of the business may make this matter (three party agreement) challenging, especially when placing a child after working hours or on the weekend in an enhanced rate placement...."

Without an agreement that involves the Department and CBC, the Department and CBC risk violating compliance with legislative intent regarding rate setting.

Recommendation #3:

We recommend that, as required in § 409.145, F.S., the Department and Our Kids document agreement with rates that are set in the Southern Region.

Acknowledgement

The Office of Inspector General would like to thank the management and staff of Our Kids Finance Department, and the Department's Office of Child Welfare, Office of Financial Management, and contract manager.

Management's Response

See Appendix.

This assurance project was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing,* published by the Institute of Internal Auditors, and the *Government Auditing Standards*, published by the United States Government Accountability Office. Elton Jones, CIGA, conducted this assurance project under the supervision of Steven Meredith, CPA, CIA, CIGA, Director of Auditing, (850) 488-8722.

This report is available on our website http://www.myflfamilies.com/about-us/office-inspector-general

APPENDIX

From: Mohamed Ghalayini, CPA <ghalayinim@ourkids.us>
Sent: Wednesday, June 27, 2018 4:37 PM
To: Jones, Elton
Cc: Sims, Jessica K; Parks, Keith; Stanford, Bronwyn; McMurray, Kimberly; Guerrier, JoShonda; Menendez, Yanina; George Sheldon *EXTERNAL*; Sonia M. Davis; John Antieau; planasc@ourkids.us *EXTERNAL*; Michael Williams; Annette Jose
Subject: RE: Preliminary and tentative report: Our Kids of Miami-Dade/Monroe, Inc. - Client Trust Funds

Dear Mr. Jones:

In reference to your Client Trust Funds audit and the three findings your report noted, please find below our reply to those findings:

1-Our Kids did not allocate bank service charges to CTF accounts, but paid these fees by reimbursing CTF bank account with funds from the department

We kindly ask the Office of the Inspector General (IG) to advise us, if they strictly prohibit Our Kids from using its general funds to reimburse the CTF charges, whether they would allow us to cover the CTF charge from our Private Funds instead?
Also we would like to get the IG's concurrence about our policy to net the charges incurred with the earnings incurred on those accounts.
Furthermore, as long as the charges are greater than the earnings, then we would not have to allocate those per account.

2- Our Kids did not invest excess CTFs

There is definitely a benefit from investing any unallocated funds with the State Of Florida Treasury. We shall be investigating further this path.

3- OK should provide documentation that room and board rates deducted from CTF were agreed upon or approved by the Department

We will liaise with the department to investigate further this path and agree over a procedure to comply without creating bureaucratic hurdles with the legislation.

Regards,

Mohamed Ghalayini

OurKids
of Miami-Dade/Monroe, Inc.

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We create safe havens for children and families through adoptions and foster care